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IN THE

Supreme Court of the United States

OCTOBER TERM, 1980

PETER M. ROBERTS,

Petitioner,

vs.

SEARS, ROEBUCK AND CO., a corporation,

Respondent.

PETITIONER'S REPLY TO RESPONSE TO PETITION FOR A WRIT OF CERTIORARI

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The Response to the Petition does not, in essence, contest the validity of the legal position stated by petitioner. Instead, it seeks to suggest, by distortion of the record, that the errors committed by the court of appeals were invited errors. The fact is that petitioner unswervingly demanded the right to jury trial on all of his claims and never abandoned his right to recapture the profits respondent secured by defrauding petitioner of his rights in his invention.

I.

THE FACTS: THERE WAS NO INVITED ERROR. PETITIONER HAS PERSISTENTLY AND CONSISTENTLY ASSERTED THE RIGHTS HE SEEKS TO VINDICATE HERE.

Each of petitioner's three claims (first, fraud; second, breach of a confidential relationship; and third, negligent misrepresentation) rested on a theory of rescission, or disaffirmance of the agreement Sears obtained by its fraud. Return of the patents was sought under each claim. Only the amount of monetary recovery would vary: the unjust enrichment of the respondent under the first and second claims; the damage to the petitioner under the third claim.

Sears states that the petitioner "has already received a jury award of respondent's profits." The instruction in this case told the jury that in determining the plaintiff's damages they *may* take into account the defendant's profits. As the patent cases show, an instruction which tells the jury that they *may* take into account the defendant's profits is not "essentially the same standard" (App. 16a) as an instruction which tells the jury that the plaintiff *has a right* to recover the defendant's profits.

The trial judge made it plain that he was giving the instruction which he dictated because it was *not* a past profit instruction. Sears recognized that the instruction in question required any jury award to be for money damages exclusively. (Response p. 10, fn. 8.) Although the court of appeals characterized the instruction in question in its first opinion as one which authorized the jury to award the defendant's wrongful profits to the plaintiff, that is not what the court of appeals held in its second opinion. In the second opinion it reverted to the position of the trial judge and held that "By submitting his damage claim to the jury, the plaintiff elected that remedy," and therefore Sears was entitled

to keep the profits it had acquired through its fraud. (App. 43a)

In the same vein Sears states (Response pp. 3, 4) that on the first appeal to the court of appeals petitioner contended that the instruction on monetary recovery "required an award of respondent's *profits, not damages.*" Excerpts from petitioner's brief, taken out of context, are presented to support this statement, which is contrary to the fact. The petitioner's brief on the first appeal urged throughout that he was entitled to rescission. The basic proposition in the petitioner's brief read as follows:

> "Under his prayer for rescission, plaintiff is entitled to the consistent remedy of return of his property which the defendant obtained by fraud and breach of a confidential relationship and of monetary restitution for the value of the use Sears made of that property which it wrongfully obtained." (Brief at 16)

And the following proposition was discussed at pp. 33-40 of that brief:

> "The pleadings consistently and unequivocally sought rescission of the agreement, restoration of plaintiff's patents, and monetary restitution for the value of their use. The evidence and the verdict established the right to this relief, and this relief has not yet been granted." (*Id.* at 33)

Sears repeatedly says that the instruction which told the jury what it might consider in determining the amount of its verdict if it found Sears guilty of fraud "was tendered" by the petitioner. It must be pointed out emphatically that the petitioner *did not request* that instruction. The judge had twice refused to instruct the jury that the plaintiff was entitled to an accounting for the profits Sears had acquired by its fraud. (App. 54a, 62a) The judge had also firmly announced that he would not consider a request for equitable relief by way

of accounting for Sears' profits following a determination that the petitioner had been defrauded by Sears. (App. 53a)

The instruction given was dictated by the judge, (App. 62a), and was retyped and returned by the petitioner's attorney, who, in delivering it to the judge, stated: "I just want to say for the record, it was our understanding the Court had earlier refused an instruction asking, telling the jury they had to award profits." (App. 63a) And again: "I will just say for the record, your Honor, this is being submitted because of the Court's ruling that the jury should not be instructed that they had to bring in the profits." (App. 63a) Because of Sears' arguments, the petitioner was without any instruction other than that dictated by the judge.

There was no invited error. The requirements of Rule 51 were delineated long ago in *Irvin Jacobs & Co. v. Fidelity & Deposit Co. of Maryland*, 202 F.2d 794, 800-801 (7th Cir. 1953). The test for compliance is whether the trial court "fully understands the plaintiff's position." And after having made his position clear, "the plaintiff was free thereafter to win a verdict if he could within the narrower borders of the case that the Judge had laid down for him." 202 F.2d at 801.

Finally, Sears argues (Response p. 9), that petitioner is now claiming that the jury verdict was "inadequate." Petitioner has not contended that the jury verdict was inadequate as a determination of his damages. Rather, he asserts that the issue of Sears' profits was not submitted to the jury for determination and has not yet been determined by any trier of fact. The isssue of Sears' profits had been withdrawn from the jury upon Sears' objection. (App. 55a) At the very least it was the trial court's duty, once Sears was found guilty of fraud, to determine and award those profits.

II.

THE LAW: PETITIONER HAS BEEN DENIED CONSTITUTIONAL RIGHTS CLEARLY ESTABLISHED BY THIS COURT AND OTHER FEDERAL COURTS.

The respondent would have the Court conclude that no more is involved in this case than an erroneous instruction from which no appeal was taken. But what is at stake here is the right to a jury trial in an action to enforce the basic policy of the law against unjust enrichment through fraud. Under the decision of the Court of Appeals for the Seventh Circuit in this case, the price of a jury trial is the forfeiture of the right to enforce that basic policy. The court of appeals announced: "Restitution for the disgorgement of unjust enrichment is an equitable remedy with no right to a trial by jury." (App. 43a) The court then held: "By submitting his damage claim to the jury, the plaintiff elected that remedy." (*Id.*)

Sears now argues that *Dairy Queen, Inc. v. Wood*, 369 U.S. 469 (1962), and the related decisions of this Court and the Courts of Appeals are irrelevant because the petitioner in this case had a jury trial. Of course he did—*but the penalty now imposed by the court of appeals* for that jury trial is the forfeiture of his right to an accounting for the profits that Sears obtained by its fraud. The Seventh Amendment and the cases interpreting it do not countenance the imposition of such an unconstitutional condition upon the right to a jury trial.

Sears seeks to avoid liability by stressing the fact that petitioner accepted $1,000,000 after the first appeal. As matters stood at that time, the jury had found for the petitioner with respect to negligent misrepresentation and that judgment had been affirmed. Petitioner then believed, as did the trial judge, that restitution of Sears' unjust enrichment would follow under the court's remand "for a determination of whether rescission is appropriate under the facts of this case." (App. 17a)

Under the trial court's rescission decree, nothing more than the benefits Sears derived by its fraud would be allowed to the petitioner. The magnitude of Sears' potential liability to disgorge its unjust enrichment has always been within Sears' exclusive control. It was Sears' conscious decision, despite the charges of fraud later proved by Sears' own records and employees, to withhold plaintiff's patent rights until the value of those rights has so greatly diminished that their return is a hollow gesture. During the many years this case has been pending, Sears has been actively exploiting the patent and the invention in the marketplace. Sears argument that recovery of its profits would render the patent laws a nullity was properly rejected by the court of appeals on the first appeal. The patent law governs the rights between the owner and the infringer. During the period in question Sears was the owner and exploiter of the patent and its liability was not based on infringement but on unjust enrichment through fraud.

The wrongful profits that Sears seeks to retain may be large, although Sears vigorously denies it. But the impact of this case upon the nation's business ethics and morality far exceeds its significance to the parties. Disgorgement of the wrongdoer's profits has a punitive sound. In point of fact however, when the wrongdoer's profits have been taken from him, he has had an entirely free gamble. He has not been penalized at all. If his fraud goes undiscovered, he has profited greatly; if it is discovered, he is simply put back where he would have been if he had not embarked upon his fraudulent course.

If only a damage remedy is permitted for fraud, the law will be insuring that fraud will be more profitable than honest dealing. A fraudfeasor will use the invention or other property free, paying at most a reasonable royalty, and that only if and when his fraud is estab-

lished in a court of law. It is for these reasons that statutes and decisions have sanctioned the recovery of both the plaintiff's damages and the defendant's profits. (See, *F.W. Woolworth Co. v. Contemporary Arts, Inc.*, 344 U.S. 228, 229 (1952); *Telex Corp. v. International Business Machines Corp.*, 510 F.2d 894, 932 (10th Cir. 1975); cf. *Clark v. Bunker*, 453 F.2d 1006, 1011 (9th Cir. 1972)). That question is not presented in this case, however, because the District Court has determined and the petitioner has agreed that the judgment recovered is to be credited upon the ultimate accounting.

On the first appeal the court stated that plaintiff had been awarded past profits, hence it denied his claim to recover them. On the second appeal the court held that the plaintiff had not recovered past profits, but was no longer entitled to do so because he had elected a damage remedy. The decisions are inconsistent, and combined they unconstitutionally deprive the plaintiff of his unjust enrichment claim.

Respectfully submitted,

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